■ MBAs' FAVORITE JOBS • THE '88 POCKETBOOK ISSUE • MEXICO'S FUTURE ■

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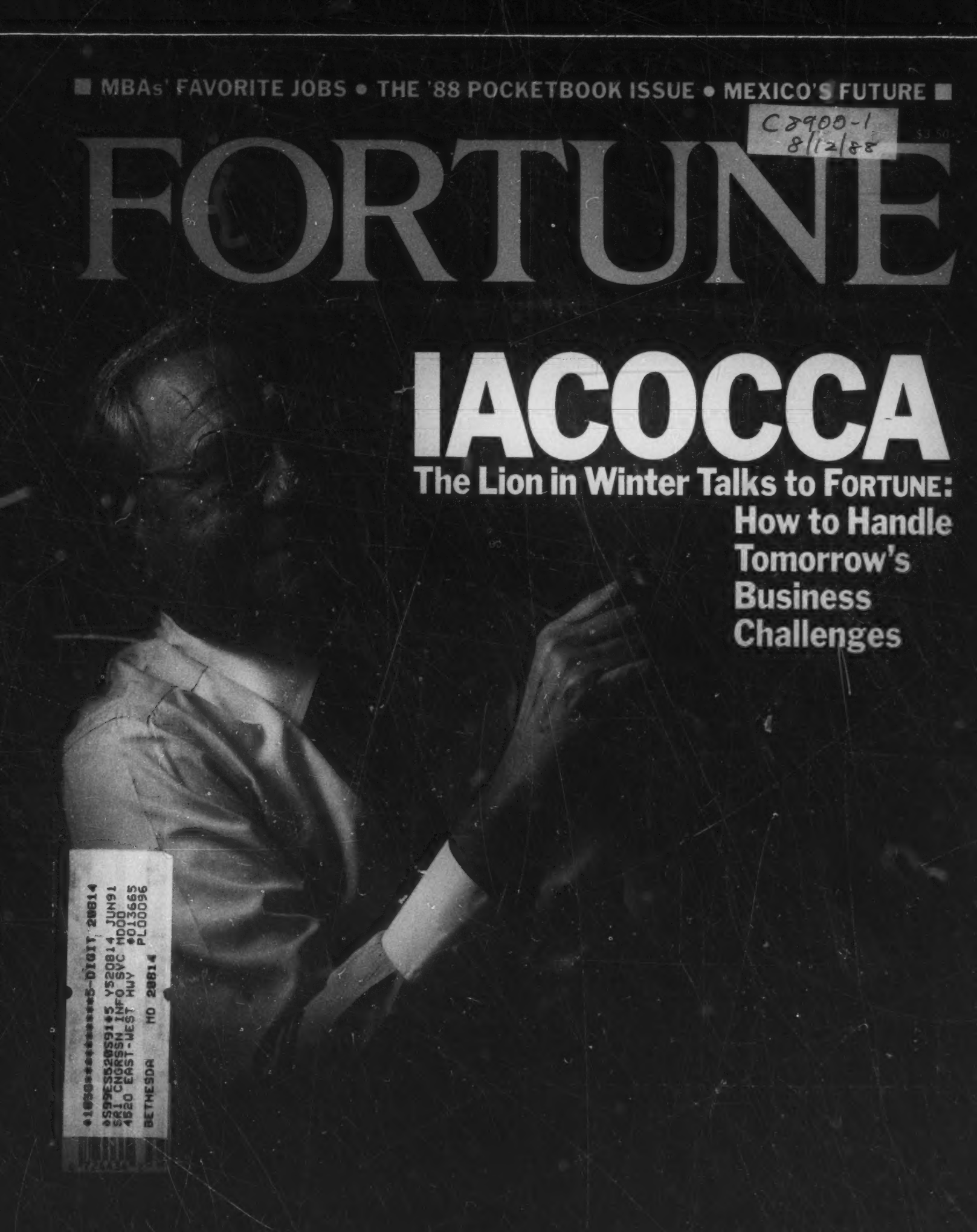
FORTUNE



IACOCCA

The Lion in Winter Talks to FORTUNE: How to Handle Tomorrow's Business Challenges

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AUGUST 29, 1988

FORTUNE

GREGORY HEISLER

"In the end your legacy is: Did you know what the hell you were doing?"

COVER STORY/PAGE 38

COVER: Gregory Heisler photographed Chairman Lee Iacocca at Chrysler's New York offices.

PROFILE/COVER STORY

IACOCCA 38

Here's what he didn't say in his two best-sellers. The bare-knuckle Chrysler chief executive talks with characteristic candor about some good times shared with Henry Ford II, offers an ounce of sympathy to GM's hapless Roger Smith, and reflects on his 42 years in automaking and the global future of business in the 21st century.

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Can you believe it? Some of them are rejecting Wall Street for the less certain but more challenging life of the entrepreneur. Others are hoping to land jobs in manufacturing so they can create something real. In short, the men and women of this graduating class want something more than money, money, money. *by Peter Nulty*

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Not so long ago, the onetime champ of cereals turned wimpish. Now the company is back and roaring, a giant again. It has creamed competitors and brought dollops of youthful vigor to a business everybody else thought was mature. As it turns out, millions of Americans still love to eat breakfast. *by Patricia Sellers*

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Given the growing concern, it's amazing how little we all know about the potential dangers, particularly electromagnetic emissions. Companies better start learning. A place to begin: Support the research effort. *by David Kirkpatrick*

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"It's time for Republicans to focus on issues like the economy. And this is the man to do it."

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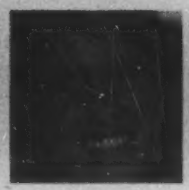

"We will be owner-managers. We're building equity and working hard. We're having fun."

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"Buy one of those parastatals and you buy a nasty union problem."

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"Jeffrey is probably the best-organized human being in the universe."

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"If there was a market in mass-produced portable nuclear weapons, we'd market them too."

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"The deficits have provided a fiscal boost to a global economy pitching into the abyss."

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EDITOR'S DESK

THERE'S a political addict in some of us all of the time, and in all of us some of the time. As the race for the presidency heats up, FORTUNE aims to give you coverage of politics that is simultaneously unique and relevant to you as citizen and manager. Who does what to whom is not FORTUNE's meat. Instead, notes assistant managing editor Ann Morrison, who supervises our Washington coverage, "We look very hard at the real issues confronting the country and business and at how each candidate is likely to handle them."

WALTER P. CALAHAN

Writers Lee Smith and Ann Reilly Dowd on the Beltway beat

Sometimes we can be most impatient with the candidates. Witness the "Stop Kidding Us" cover story of our last issue: We called on the two presidential candidates to admit that, short of a miracle, the only way to cure the budget deficit is to raise taxes, a solution each has tried to dodge. That story was written by Ann Reilly Dowd, a 5½-year veteran of our Washington bureau, who describes her ongoing assignment this way: "We operate as a kind of truth squad. We listen to what the candidates are saying—or aren't saying—and weigh that against the real facts."

Her article won mixed reviews. Many inside the Beltway thanked her for saying what needed to be said. But she got a call from a high official at the Office of Management and Budget who was far from pleased. As it happens, Dowd once worked in the same Executive Office Building as her angry caller. Helping to write and edit daily press summaries for President Ford was her first job after she earned her MA in journalism at Northwestern University.

In this issue, Washington bureau chief Lee Smith focuses on Social Security and the desperate need for reforms (see page 84). Recently he has also written about the enormous voting power of retired people, called on U.S. allies to pick up a fairer share of America's defense budget, and urged that AIDS research funds be directed at high-risk groups and not the low-risk rest of us. Now he examines the huge and growing Social Security surplus and proposes solutions that at once will reduce the budget deficit and provide enough in the way of Social Security benefits for all the baby-boomers when they retire in the 21st century. Says Smith, who was FORTUNE's Tokyo bureau chief for three years before moving to Washington in 1985: "It's difficult to try to be ethical and at the same time to see what we can afford and what we can't. The exercise wasn't that different from trying to understand Japanese culture. It had many of the same illusory factors."

With the help of reporter Lucretia Marmon and editorial assistant Susan Schaeffer, Smith and Dowd represent a distinguished continuum of Washington coverage that dates back to the magazine's beginnings in 1930. Our conclusions haven't always been in line with conventional thinking. But unconventional thinking is something else that FORTUNE delivers as an exclusive.

Marshall Loeb

MANAGING EDITOR

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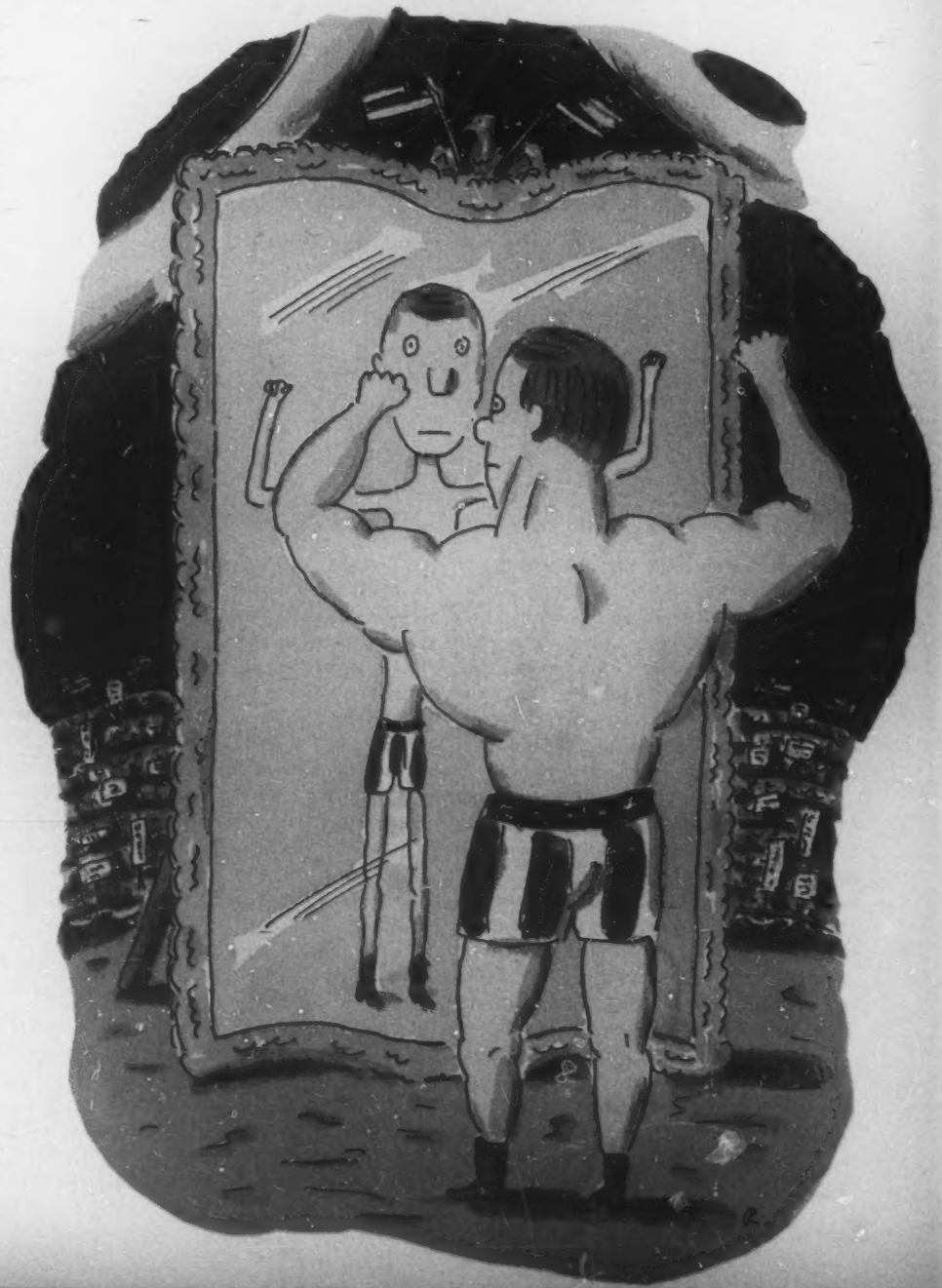
WHO'S WINNING THE POCKETBOOK ISSUE?

Republicans rejoice because the numbers show the U.S. economy is muscular. Yet many voters see it as only a 98-pound weakling—and that helps the Democrats. ■ *by Louis S. Richman*



WHATEVER THE Democrats have going for them this year, you'd think the Republicans would at least have a lock on the one issue that most often decides presidential elections—the economy. Think again. Individually, Americans feel fairly flush. According to a recent Gallup/Times Mirror poll, 80% of those surveyed expressed "satisfaction" with their personal lives, including their economic situation. But looking at the U.S. economy as a whole, a surprising number of citizens don't see a nation enjoying its 70th month of steady growth, relatively low inflation, and broad prosperity. Instead, their self-image is of a society plagued by downward mobility and declining living standards, with a future that seems to hold little promise and even larger problems.

So far the Democrats have been remarkably successful in making political capital out of America's economic anxieties. The *satisfied* citizens identified by Gallup say they favor Michael Dukakis in November by a 4-to-3 margin. But Dukakis doesn't just claim, as he frequently has in his campaign speeches, that "we can do better" in the future. Take his line about the need for "good jobs at good wages." The implication is that while the Reagan era may have been splendid for the undeserving rich, many poor and middle-class voters are less well off than they were eight years ago.

Are they? To get an accurate reflection of how the U.S. economy has fared since January 1981, clear your mind of campaign rhetoric and focus on the following facts:

■ Real median household incomes are the best measure of family prosperity. From 1981 through 1986 (the latest year for which data are available) they rose a total of 9.1%, to $29,458. During the Carter years, they *decreased* 3.4%.

■ Under Reagan, real median incomes of

REPORTER ASSOCIATE *Edward Prewitt*

male, full-time workers climbed 3.8%, compared with a 6.4% drop under Carter. These gains have been shared by all races.

■ America's "misery index"—the sum of its inflation and unemployment rates—has plunged from 17.9% in January 1981 to 9.4% today. Barring a last-minute disaster, Ronald Wilson Reagan promises to become the first President on record to complete his term with both inflation and unemployment lower than when he was elected.

■ Since the end of 1980 the U.S. has produced nearly 16 million net new jobs, some 90% of all the jobs created by the Big Seven industrial economies. Today a record 115 million Americans are employed. At 5.4%, the unemployment rate is the lowest in 15 years. Black teenage unemployment, essentially unchanged under Carter, has fallen a full ten percentage points since 1981, to 31%.

■ During the Reagan years, the gap between rich and poor has widened. Between 1981 and 1986 the share of total national income claimed by the poorest 20% of households dropped from 5% to 4.6%. The take of the richest 5% of American families swelled from 15.4% to 17%.

■ Sending a child to a four-year, private college now consumes some 40% of median family income, up from 31% in 1981. The price of health care has also continued to skyrocket. But that other staple of the American dream, the home mortgage, has gotten cheaper. In real dollars, the annual after-tax cost of owning an average home peaked in 1982 at $9,599 and now stands at just $7,449. Measured as a share of median family income, that's a decline from a budget-busting 36% to a more bearable 25%.

■ Real GNP growth since the end of 1980 has averaged 3% a year, slightly less impressive than the 3.2% pace achieved during Jimmy Carter's term. But at 70 months and counting, the current expansion—already the longest period of peacetime growth in the history of the Republic—shows no immediate sign of ending its record-shattering run (see Fortune Forecast).

■ Still, the U.S. has purchased a sizable chunk of its current prosperity by running up a fearsome—and unprecedented—credit tab. Under Reagan, the federal debt has ballooned by $1.2 trillion, to $2.4 trillion. The current account, which measures trade in both goods and services, has swung from a surplus of $6.9 billion to a deficit of $154 billion. But not all this borrowing has been frittered away on consumption. Real gross business and personal investment has risen 25.6% since 1981, versus a decline of 2.3% under Carter. By most measures U.S. business is more competitive today than it was in the late 1970s. But then, with those kinds of debts to pay off, it had better be.

What these statistics tell us about Election 1988 pocketbook issues is clear: Americans have reason to fear possible *future* falls in living standards. Serious unsolved problems remain. But the charge that the rising tide of Reaganomics has mainly lifted the yachts and left the dinghies grounded is a bum rap. If anything, the current expansion has been even stronger and broader than most voters realize.

THE BIGGEST WINNERS by and large have been the two groups least likely to support George Bush: blacks and women. From 1981 through 1986 real median incomes of black families rose 10.1%, to $17,604 a year. Under Carter, they dropped almost 6%. One reason for the increase: the stunning gains by black families in which both spouses are full-time wage earners. Since 1981 their real median income has surged more than 34%, to nearly $40,000 a year.

Gains by women generally reflect the progress they have made in the workplace. Nearly 50 million women hold paying jobs—some 8.1 million more than when Reagan's presidency began. The rate of female unemployment has, for the first time during the 1980s, fallen to the same level as that of men. Many of the jobs women hold today are in higher-paying occupations that were once male preserves. The number of women in management and skilled production jobs has swelled since 1981 by 70.8% and 52.4% respectively. That partly explains why the infamous pay gap between males and females narrowed by five percentage points over the same period. Average annual earnings of women are now 65% of men's.

Unable to attack the Republicans for inadequate job creation, the Democrats have been assailing the quality of employment. Eight years of "deindustrialization," they claim, have pushed legions of well-paid manufacturing workers into low-wage McJobs. Though he generally avoids echoing Walter Mondale, Michael Dukakis repeats a line from Fritz's old stump speech. The country, he warns, is sinking toward "an America where all we do is flip each other's hamburgers and take in each other's dry cleaning for $3.35 an hour."

Burger-bashing makes no more economic sense in 1988 than it did in 1984. The bottom line is that for *every* category of full-time worker—black and white, male and female—real median incomes have risen since 1981, after stagnating throughout the 1970s. Marvin Kosters, an economist at the American Enterprise Institute, calculates that over 90% of lower income workers are part-timers, perhaps 80% of whom choose to work shorter hours.

True, even though the American industrial heartland has begun to rebound, some 550,000 manufacturing jobs have disappeared since 1981. But this hardly signals an erosion of the nation's industrial base. Manufacturing's share of national output is about the same today as it was eight years ago—20%. Many of these lost jobs were in relatively low-paying industries such as textiles and apparel. In general, the fastest-

WHO'S AHEAD UNDER REAGAN . . .

Change in real median income, 1981 through 1986, in 1986 dollars

UP 8%

ALL FAMILIES
1981 $27,302
1986 $29,458

UP 11%

WOMEN
1981 $15,191
1986 $16,843

UP 9%

BLACK FAMILIES
1981 $16,185
1986 $17,604

. . . AND BEHIND

DOWN 12%

YOUNG FAMILIES
1981 $17,068
1986 $14,945

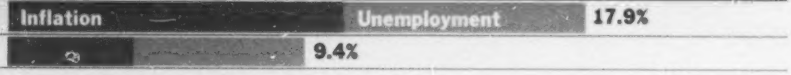
After sinking under Jimmy Carter, black and white family incomes rose smartly during the Reagan years. Women with full-time jobs also prospered mightily. Very young families were about the only big income category in need of a life preserver.

ILLUSTRATIONS BY MARC ROSENTHAL

THE REAGAN RECORD

	WHEN THE PRESIDENT TOOK OFFICE	NOW
Inflation (CPI)	10.5%	4.0%
Unemployment rate	7.4%	5.4%
Unemployment rate, adult black males	12.1%	9.5%
Mortgage interest rates	13.2%	9.0%
Personal income tax rates	14–70%	11–50%
Budget deficit (billions)	$79	$152
Trade deficit (billions)	$34.6	$131

THE MISERY INDEX



growing job categories in the 1980s have been higher-paying managerial and professional positions. They have increased 28% since the start of Reagan's first term and now compose a quarter of all employment.

DEMOCRATS are on somewhat stronger ground when they complain about a failure to close the gap between the haves and have-littles. Though more Americans are working, the proportion of the populace living in poverty—currently 13.6%—is little changed from 1981.* What has caused this stagnation is not some mythical expansion of bad jobs but an increase in the number of households headed either by single parents or people aged 15 to 24. For example, the number of families headed by black female teenagers—the poorest of all categories, with a meager median income of just $4,446—has risen 5% since Reagan took office.

Among married couples, however, the percentage living below the poverty line has declined. Only 10.8% of black married couples were classified as poor in 1986. That's a full 4.6 percentage points less than in 1981 and the lowest level since the Census Bureau started tracking this group in 1974. Among those 65 or older, the proportion in poverty peaked under Carter at 15.7%; by 1986 it too had dropped to a record low, 12.4%.

But what about the incredible shrinking middle class? Haven't a growing number of formerly well-off American families been slipping sadly into penury? No. Though many cases of downward mobility can be found, a study by Bureau of Labor Statistics economists Michael W. Horrigan and Steven E. Haugen shows that those exiting the middle-class are primarily upward bound. Thus, while the number of U.S. households with real yearly incomes between $20,000 and $56,000 has decreased since 1981 by 1.2 percentage points, families with incomes above $56,000 grew by four points.

So, if the income data are almost uniformly upbeat, why do many Americans feel edgy about the economy? Maybe it's superstition. Like Dickens's free-spending Mr. Micawber, who sailed through life blithely certain that something would "turn up," the U.S. in the 1980s has enjoyed an amazing string of timely breaks. When the budget deficit threatened to crowd out private investment, a horde of eager foreign lenders unexpectedly appeared. Later, oil prices—the scourge of the 1970s—took a largely unforeseen dive. And when U.S. consumer spending began to flag, well, the dollar dropped—without causing the friendly foreigners to panic, mind you—and exports exploded. Perhaps Americans simply fret that when Ron leaves the White House, his luck goes with him.

A more rational reason is that the costs of some of the essential components of the good life—college education, health care, and down payments on a home in many areas—have not stopped soaring. As a result, many families must run even harder just to keep pace. No one knows for sure, but it's likely that many second incomes brought home by working wives may well have been prompted by economic necessity rather than a desire to seek new career options. Reaganomics didn't spark these unhappy long-term trends. But neither has it done much to slow them down.

Both the working poor and the middle class, for example, continue to lose ground against rapidly rising health care costs. They have climbed more than 50% faster than the rate of consumer price increases over the past 20 years. Though prices in general moderated during the Reagan presidency, health care costs surged 57%. A survey by Hay/Huggins, an employee benefit consulting firm, reports that premiums paid by workers for employer-sponsored family health coverage rose 336% since 1981, to $485 this year.

Financing college education for one's children today, a far-off fantasy for many of the poor, is also becoming a bigger burden for middle-income Americans. The average annual cost of a state university education has soared more than 60% since 1981, far outstripping the 21% rise in financial aid. The price of sending a son or daughter to a private college now averages $11,870 a year, up from $6,566 in 1981.

Above all else, hanging over the economy like some giant boulder poised to flatten it are those monstrous trade and budget deficits. Because of them, Jay Schmiedeskamp, the Gallup Organization's chief economist, predicts that 1988 will prove an exception to the rule that the state of voters' wallets determines their electoral preference. Says he: "People vote their pocketbook when it's in trouble. When they see other problems looming, they vote on their perceptions. Voters today worry that the deficit is leaving a walloping bill that is about to come due."

THE CRUCIAL QUESTION of this election, then, may not be "Are you better off than you were eight years ago?" If it were, the Republicans should win hands down. Rather, the issue may well be which candidate will voters perceive as most likely to leave them even better off in 1992—and beyond.

In a presidential campaign still too volatile to predict, bashing the Reagan record (as Dukakis has been doing) or resting on its laurels (as Bush seems inclined to try) does the citizenry a disservice. The battleground is the future. What both men owe the country are the best arguments they can muster for how they plan to build upon the real prosperity achieved under Reagan—and some concrete proposals for tackling the daunting unfinished business that he will leave. F

* The government draws the poverty line according to family size and age. For a single person under 65 years, it's an annual income of less than $5,701. For a couple over 65, poverty means income below $6,630. For a married couple with two children, it's an income under $11,113. For philoprogenitive families with nine or more members, the threshold rises to $21,185.

WHERE THE 1988 MBAs ARE GOING

The new grads are rejecting Wall Street in favor of entrepreneurial adventures or jobs in—can you believe it?—manufacturing. They say they're after more than money. ■ *by Peter Nulty*

IF STUDENTS are a bellwether of trends, then listen up. The get-rich-quick fever that over the past few years drove business school students to Wall Street like hootch-crazed prospectors bound for the Klondike has broken at last. Placement administrators of MBA programs from Cambridge to Palo Alto report a sharp decline in the number of graduates signing on with investment banks and brokerage firms. For example, only 11% of Harvard's 1988 MBA class will enter investment banking, compared with 30% of last year's class.

Ah, you say, October 19 and all that. Surprise: The change under way seems to go well beyond a redirection of the lemmings toward the next high-dollar cliff. Evidence is mounting that MBAs have begun to look for more from their careers than just megabucks or a guaranteed spot on the fast track. They are expressing greater interest in entrepreneurship and—hold your breath—manufacturing management. In a survey by the University of Pittsburgh's Katz school of business, MBA candidates at 11 top schools listed their personal and career concerns in the following order of importance: family, health, ethics, and leisure. Money and power came in seventh and ninth.

The new trend, if that's what it turns out to be, may even siphon talent away from business schools. Applications to MBA programs are suddenly slackening. The Graduate Management Admission Council, which administers a standardized test for applicants, estimates that the number of test takers will rise only 2.6% this year, compared with an average annual increase of 6% over the past three years. Next year, says GMAC President William Broesamle, the number of test takers may actually decline.

KEVIN KOLCZYNSKI

MBA Stacie Soule checks out her product.

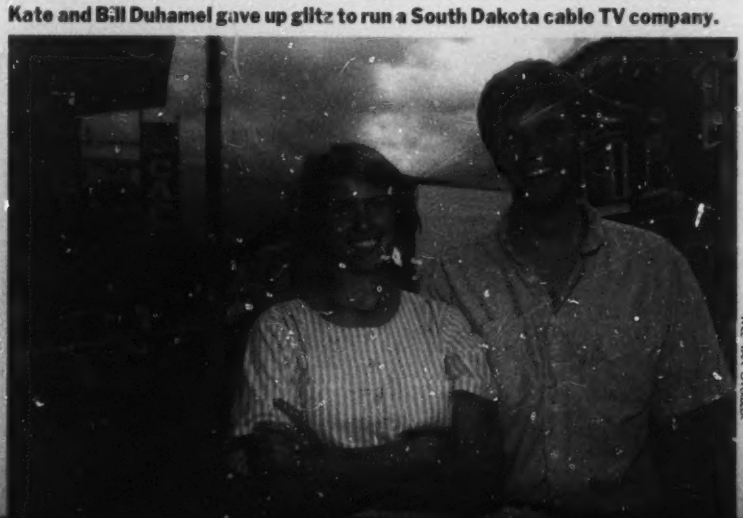
At the same time, law school applications have jumped 19% this year. Asked why, Thomas Jackson, dean of the University of Virginia law school (where applications rose 28%) says, "We're stunned. I'd guess it's partly *L.A. Law* and partly October 19." Jackson isn't the only expert to cite the TV program as a major force in shaping the career decisions of supposedly bright undergraduates. The show's message, reading between the bed hopping and the *pro-bono* work, seems to be that as a lawyer you can have fun and serve your conscience too. Black Monday, however, may not have been much of a factor: Law school applications started rising before October.

The market crash did rattle dreams on many a business school campus. "When the big Wall Street firms started cutting staff," says Linda Stantial, director of placement at MIT's Sloan school "you could see the dollar signs disappear from student eyes." Indeed, for some students, the dollar signs turned to tears. Karen Dowd, placement director at the Darden school of the University of Virginia, tells of one student weeping in her office at what seemed blighted prospects for a career on Wall Street. "Remember," says Dowd, "that many of our students give up well-paying jobs and go into debt to get their MBAs."

Last winter, recruiters from investment banking houses who visited Sloan, Dartmouth's Amos Tuck, and Stanford business school couldn't fill interview schedules that had been swamped with eager applicants in previous years. One team of talent scouts from an investment house arrived at Sloan on the very day that an alumnus who had just been cut by the same firm appeared in the library to research new job opportunities. "Word like that gets around," says Stantial.

Campus disaffection with Wall Street was welling up even before Black Monday. Scandals like the Ivan Boesky affair raised questions about ethics. Moreover, says Stantial, students who interned on

Kate and Bill Duhamel gave up glitz to run a South Dakota cable TV company.



WILL VAN OVERBEEK

Fluent in Japanese, MBA Brad LaPray (center) turned down Wall Street to work for TRW. He helps manage a joint venture with Fuji Valve Co.

the Street started complaining to their classmates about 80- and 90-hour workweeks spent as number-crunching drudges. Wayne Firsty, 25, who spent a year at Comex in New York trading silver before enrolling in Sloan's MBA class of '90, recalls those days: "It was easy to get caught up in the deals. But when I went home at night, I felt like I had been eating air." Now Firsty plans to go into manufacturing. Says he: "I want to make something real."

Partly in response to shifting student attitudes, business educators have begun to rethink their schools' curriculums, now heavily weighted toward financial skills. Many are looking for ways to introduce more material on international business, on manufacturing and operations management, and on ethics. Says John Rosenblum, dean of the Darden school: "This is the perfect time to change. We have the opportunity afforded by shifting student interests and the strength afforded by the popularity of MBA programs." (Roughly 67,000 graduate business degrees were awarded in June, compared with 21,000 in 1970.)

No single business has, as yet, inflamed campus passions quite the way investment banking did in the mid Eighties. The placement profiles of individual schools vary considerably, depending on each school's location and on longstanding relationships it may have with particular companies. To get a more comprehensive reading, FORTUNE combined the preliminary data on 1988 graduates from seven schools—the University of Chicago, Columbia, Harvard, Northwestern's Kellogg, Stanford, Tuck, and Wharton—that have standardized some of their placement reporting.

THE GRADUATES fanned out widely. (See chart.) Consulting, real estate, and manufacturing firms were the major beneficiaries. To understand why, you need only ask MBAs who have gone into these fields. William Johnson, 29, a Kellogg graduate, says he interviewed with investment banks but chose instead a job in real estate with Trammell Crow Co.: "They want me to knock on doors and learn the business from the customer. In three or four years, I'll have a chance to become a partner and take an equity position in projects."

Within the manufacturing sector, students understandably favored challenging and prosperous industries such as computers and pharmaceuticals. But just because an MBA picks a manufacturing outfit, don't assume that he or she is headed for a supervisory job in a factory. In fact, most go after positions in marketing or finance. David Rothschild worked four years as a consultant for Ernst & Whinney before attending Sloan. He now is a marketing manager, looking for ways to sell computers to schools for Apple Computer. Says Rothschild: "I didn't see any fun in Wall Street. When you watch kindergarteners trying to use a spreadsheet program, you feel you're having a different type of impact. It goes beyond making big bucks."

The torrid rate of increase in starting salaries of the past few years may be cooling, partly because the bidding from Wall Street has died down. For example, the Tuck school reports that the average starting salary for its graduates—$51,000—was 4% higher in 1988 than in 1987, when it was up 7%. The average paid by the manufacturing sector rose from $44,000 to $46,000, while the average in service industries rose from $50,500 to $52,500.

In the absence of a new Grail to replace investment banking, many students are sim-

REPORTER ASSOCIATE *Patricia A. Langan*

ply scratching their heads about what job to take. Elizabeth Meyer, director of Stanford's Career Management Center, says the big surprise at Stanford this year is the number of students who are sitting out the summer undecided about where to go next fall—about 33% of the class, compared with 23% at the same time last year. Says Meyer: "This is a nontraditionalist group who appear to have a different set of values. They have turned away from some of the usual careers and are going on long vacations. I hesitate to call it a trend because it could be completely different next year."

Indeed it might. But several career paths eagerly discussed on campus have the potential to become the new favorites. Much

JOE RAMOZ

Would-be real estate king William Johnson shows his wares.

will depend on how well the blue suits now arriving in these jobs perform. If they do well, employers presumably will rush to hire more MBAs, salary competition will heat up, and new trends will be born. Passion is often piqued by rising pay scales.

PERHAPS THE MOST intriguing new path is manufacturing management. Like young Wayne Firsty, a growing number of MBAs think they smell an opportunity, as well as a good cause, in going into the factories. Carnegie Mellon, for instance, reported that 12% of its 1988 class entered manufacturing operations this year, up from 5% last year. Says Colin Blaydon, dean of the Tuck school, which also saw a modest increase in students headed toward the shop floor: "With automation in the factory, quality control, and inventory management, manufacturing has more appeal. We're seeing a real comeback of interest among students."

One MBA who can testify to this is Virginia Deely, 26, a 1986 graduate of Carnegie Mellon. She entered business school intending to go into finance, but on graduation accepted an offer from General Foods after enjoying a summer internship in a Jello factory. Today she is production manager in a plant in Modesto, California, that makes Post cereals, Kool-Aid, and Country Time lemonade. Says Deely, who sometimes recruits MBAs for the company: "Two years ago the majority were more interested in money. Now they want challenge. A lot more are interested in manufacturing and engineering. It's back to basics. I think the yuppie craze is ending."

Would-be assembly line jockeys still come up against some heavy peer pressure, a more potent force in shaping career decisions than you might imagine from the apparent self-confidence of so many MBAs. Stacie Soule, 27, a Tuck graduate who now supervises manufacturing at a GM Packard Electric division plant in Clinton, Mississippi, that makes wiring for General Motors cars, says that some of her classmates thought "I was a bit off my rocker." Her GM supervisors even tried to talk Soule into working in a bigger plant in Ohio, where she would have had more visibility. But she believes that the Clinton factory is making innovative changes that she wants to master so she can transfer the technology to other plants. Soule considered a career in consulting, where starting salaries average about $60,000, compared with about $45,000 in manufacturing. But she says that in consulting she would have missed the "reality check—you never stick around to see if your idea works."

In response to their students' interest, many business educators are trying to beef up the courses they offer in manufacturing management and to encourage manufacturing companies to consider hiring MBAs for line operations. Richard Thain, University of Chicago business school dean of external affairs, organized a conference on manufacturing and the MBA last spring and was surprised when 40 companies and 160 students showed up. The Sloan school has organized a manufacturing management program underwritten by $40 million donated by nine major companies including Kodak, Boeing, and Digital Equipment. When the first class of 20 students completes the course in 1990, they will be awarded master's degrees in both engineering and business administration. Even at Harvard, the school of choice for many Wall Street trainees, student interest in manufacturing is on the rise. Says W. Earl Sasser, a professor of production and operations management who in his basement office in Morgan Hall helped keep the embers of manufacturing know-how from winking out at Harvard: "At last we're starting to get some respect." Harvard has added two new courses in manufacturing management. In the past three years, enrollment in such courses has jumped 50%.

MANY DEANS and placement officials still fear that MBAs and manufacturing make an odd couple. Edward Mosier, Carnegie Mellon placement director, says he senses a pretty broad awakening of interest among manufacturers for MBAs as agents of change. But recruiters for these companies also want potential hires to have a technical background, such as a bachelor's degree in engineering, or otherwise "it's a pretty hard sell." Students worry that career paths in manufacturing are insufficiently defined. Says Chicago's Thain: "Most manufacturers need top talent, but right now they can give only the muddiest idea of where operations managers can go. Our students are not the type to spring for that."

A second area of growing interest is in small to midsize companies or entrepreneurial ventures. Small companies that only occasionally have managerial posts to fill often don't enter the recruiting sweepstakes. As a result, many MBAs with this bent look first to jobs with venture capital firms as an avenue into smaller businesses. But Martha Craven, director of placement for Kellogg school, is trying to encourage what she calls "correspondence opportunities"—smaller companies invite MBA candidates to apply for positions by mail. Last year Kellogg received 873 such invitations, up from 843 in 1987.

Two years ago the University of Chicago

founded a nonprofit institution called Arch to form start-up companies for manufacturing and marketing new technology developed at the university and the Argonne National Laboratory in Argonne, Illinois. (A Federal law passed in 1980 permits private companies to exclusively license research paid for with taxpayers' money.) Chicago business school students can join in by conducting market studies and drafting business plans. So far 55 students have participated, and one company has been launched—HealthQual Systems Corp., which will soon market a laptop medical computer. "The charm of small companies," says Thain, "is that our graduates can go where they really shine—and maybe get a piece of the action."

Two who have succumbed to the siren song of entrepreneurship are Bill and Kate Duhamel, both recent graduates of Stanford business school. Kate worked for a time at Kidder Peabody, and Bill was a consultant for Bain & Co. and then a marketing manager for Tandem Computers. But early this year the 27-year-olds decided to strike out for the Black Hills of South Dakota for an opportunity Kate calls "irresistible." The Duhamels, together with some members of Bill's family, are in the process of buying out a 20-year-old cable television company, South Dakota Cable, located in Deadwood, South Dakota (pop. 3,000). Kate figures that subscriptions (about 10,000) in the franchise area can be expanded by as much as 15%, after which they plan to expand by acquiring other cable systems. "Bill will probably be president," says Kate. "We're basically co-managers, the titles are unclear." But Deadwood? "We like the area. We will be owner-managers with a good base to grow on. We are building equity and working hard, so it's rewarding. We're having fun."

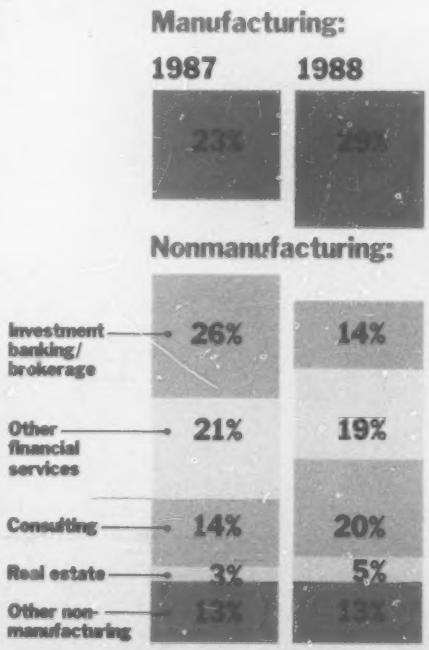
International business has become a third focus of attention on campus, though the interest here may owe as much to the educators' view of the needs of American management as it does to student enthusiasm. Most schools are looking for ways to strengthen their curriculums with international subject matter in response to a perceived trend toward the globalization of business. Tuck, for instance, this September is opening a business school in Japan, where few such institutions exist. So far it has raised contributions from 800 Japanese companies. The students will be mostly Japanese, but the faculty will be half and half, the American professors rotating out to Japan on three-year assignments from Tuck. Colin Blaydon, Tuck's dean, says he hopes that Tuck professors returning from Japan will share their experiences with Tuck students. It's a start. Blaydon notes that in the 1920s, 30% of the school's elective courses were in international business subjects, compared with 10% today. But then in the 1920s, Tuck also required all students to study a foreign language.

DOUG MENUEZ

Apples aren't for teachers only, as computer marketer David Rothschild demonstrates.

WALL STREET'S LOSS

Grads of seven top schools are still drawn to high-paying consulting jobs, but more are going to manufacturing companies now.



The key to having a world-class corps of international business managers pretty clearly is fluency in foreign tongues. Multilingual MBAs will find opportunities aplenty. Take Brad LaPray, 28, a 1988 Carnegie Mellon graduate. He got a bachelor's degree in engineering from Brigham Young after taking two years off between his freshman and sophomore years to go to Japan as a Mormon missionary. At business school he intended to seek an investment banking job. He admits that he was discouraged by the October crash, but says that recruiters, including some from Goldman Sachs and First Boston, remained very encouraging because of his fluency in Japanese. "That was my only advantage," he says.

Perhaps, but what an advantage. LaPray was also approached by several Japanese companies ("They promote mostly Japanese to higher positions"), and had offers from consulting firms and manufacturing companies such as Boeing and McDonnell Douglas. In the end he decided against his first dream, investment banking, because "I wanted to watch my kids grow up." LaPray accepted an offer from TRW, where he is helping to mount a joint venture with Fuji Valve Inc. of Japan to build a new engine valve plant in Tennessee. When it is completed he will be responsible for production control, purchasing, information systems, and project management.

Some people can have it both ways. LaPray will be in both international business and manufacturing management. If the trends keep running his way, by the time this codger is 35, young graduates may look up to him with the awe once reserved for investment bankers.

HOW KING KELLOGG

The cereal champ lost its edge, then came roaring back. Now it has creamed its competitors and brought new life to a business everyone said was mature. ■ *by Patricia Sellers*

MONDAY MORNINGS AT 7:30 William E. LaMothe, the chairman of Kellogg, and 30 or so of his top executives sit down to a breakfast of cold cereal. They sample several bowls, each containing cereal from one of Kellogg's five U.S. cereal plants or from one of the company's 16 factories abroad. Using terms like "mouth feel" and "bowl life," they discuss flavor, appearance, texture, and if it's Rice Krispies, the sound of the snap, crackle, and pop. Each sample gets graded "satisfactory"—the top rating—"acceptable," or "BKSL," which means below Kellogg's standard level, and the comments are passed on to plant managers and quality control people. Tough judges, these consumers. On average only 12% to 15% of the cereals tested at the Monday breakfasts in Battle Creek, Michigan, earn satisfactory ratings.

"We're setting the highest standard to drive to," says LaMothe, whose name rhymes with "oath." An eight-year stint overseeing Kellogg's research and development turned him into an apostle of quality and prompted him to start the taste tests in 1979, when he became chairman. Truth to tell, the cereal maker had gotten out of touch with consumers too old to send in a Froot Loops box top and 50 cents for a Toucan Sam doll. It was underspending its competition in marketing and product development, and by 1983 its U.S. market share hit its low of 36.7%. A prominent Wall Street analyst summed up Kellogg as "a fine company that's past its prime."

Those were fighting words to LaMothe. "Past our prime?" he snorts. "We *loved* that." He and his managers became so obsessed with the remark that for the next year strategy sessions ended with someone

For Kellogg executives, breakfast in Battle Creek means a taste test. Says CEO LaMothe (fourth

PHOTOGRAPHS BY MICHAEL L. ABRAMSON

BEAT THE BLAHS

from left): "I can't remember our agreeing even to a small reduction in quality to save money."

asking, "How's *that* for a company that's past its prime?" Kellogg has gained five share points since it hit bottom, in a market where every point is worth about $42 million in revenues to the manufacturer.

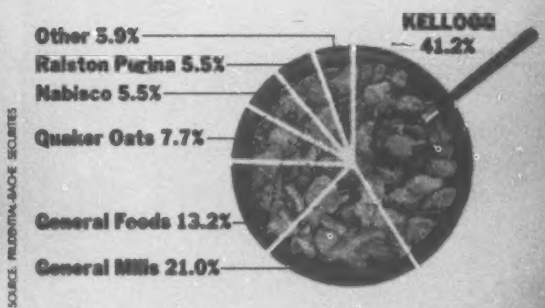
Another problem that confronted Kellogg and its chairman is one that many companies in fickle consumer industries face: what to do when your basic business stops growing. Some companies diversify their way out of the dilemma. Kellogg had bought two small businesses, Mrs. Smith's pies and Eggo waffles, in the 1970s, and industry analysts thought the company foolish for not diversifying further as General Mills and Quaker Oats were doing. Kellogg's critics, who saw baby-boomers reaching adulthood, noted that grownups do not eat much cereal, but LaMothe refused to heed their warnings that the market would mature in the 1980s. He decided to stick with the cereal business—and make that no-growth industry grow for Kellogg.

"I thought, what are these companies really getting out of diversification?" says LaMothe. "We looked at demographics and saw this big group—80 million baby-boomers. We knew they were health oriented, they were joggers. People said, 'Forget about them. They don't eat breakfast.' We knew they were too big to forget about."

Instead of concentrating on kids, cereal's

SCARFING DOWN THE BIGGEST SHARE OF CEREAL

Kellogg peddled about a billion pounds of cereal in the U.S. in 1987, almost twice as much as General Mills. Having risen from 36.7% of the ready-to-eat cereal market in 1983, it is now shooting for 50%.



SOURCE: PRUDENTIAL-BACHE SECURITIES

MARTHA STANTZ

LaMothe's kitchen cabinet: Langbo (left) runs International; Schroeder, North America.

customary customers, LaMothe zeroed in on this expanding adult population. By pitching cereal's convenience and nutritional value, Kellogg has helped persuade U.S. consumers age 25 to 49 to eat, on average, 26% more cereal than people that age downed five years ago. The "no-growth" U.S. ready-to-eat cereal market, worth $3.7 billion at retail in 1983, now totals $5.4 billion, and has expanded three times as fast as the average grocery category. "We're driving the cereal industry's growth," says LaMothe proudly. Adds David G. Owens, a consumer products consultant: "Kellogg has taken an unexciting growth prospect and made it exciting."

THE COMPANY'S revenues have swelled from $2.4 billion in 1983 to $3.8 billion last year. Foreigners are spooning up Kellogg's cereals too. Says executive vice president Arnold G. Langbo, who heads Kellogg's fast-growing international division (1987 revenues: $1.1 billion): "We've struck the word 'mature' out of our language."

Today LaMothe talks about raising Kellogg's U.S. market share to 50%, and his competitors don't know how to stop him. General Mills, the largest rival, sells mostly kids' cereals and hasn't snared more than 21% of the market for the past several years. But Kellogg has gained most of its market share at the expense of the No. 3 manufacturer, General Foods' Post division, part of Philip Morris. Post makes cereals for grownups, but it has not had a successful new product since 1982, and its market share has slid to 13.2% from 16.5% five years ago. Ralston Purina, RJR Nabisco, and Quaker Oats each control less than 8% of the industry. Says an executive at one of those companies: "We don't see any major areas of weakness in Kellogg that we can attack." Adds another: "These guys act like they want it all."

Indeed they do. Wall Street analysts who criticized Kellogg a few years ago now praise LaMothe for his commitment to the cereal business. Short and wiry, he started selling cereal on his hometown streets of Brooklyn after earning an economics degree from Fordham University in 1950. Like most Kellogg managers, the 61-year-old chairman is low key and serious, "a soft-spoken, no-nonsense high achiever," says former Ford Motor chairman Philip Caldwell, who sits on Kellogg's board. "He doesn't go around beating his chest." But LaMothe is a tireless worker—usually sev-

en days a week and often at a stand-up desk in his office "to keep the adrenaline flowing," he says. His concentration is formidable and beamed relentlessly on the cereal business. LaMothe says that running a diversified company such as a Procter & Gamble "would blow my mind."

HOW DO YOU hitch up your market share and disprove the doomsayers? LaMothe has no formula, but his advice is instructive: "You have to have enough muscle to bring to the marketplace value-added products that really do offer the consumer something better, and then you've got to be able to tell the consumer about them. You have to have a strong franchise and continue to build on it." Spending to develop new products is key. Kellogg's R&D budget last year was $40 million, about 1.1% of sales, vs. General Mills' $38.3 million, or 0.7% of its $5.2 billion in fiscal 1987 revenues. With 47 cereals introduced worldwide in 1987, Kellogg launches twice as many new products today as it did five years ago.

The story of one of those new brands, Müeslix (pronounced muse-licks), illustrates how Kellogg is successfully pitching to the big kids products that are a lot more exotic than plain old Corn Flakes. Müeslix is dense, crispy flakes mixed with dried fruits and such unusual morning fare as hazelnuts. Horst W. Schroeder, 47, the German-born president of Kellogg North America, came up with the idea for Müeslix in 1986 only to be faced with terrific opposition from Kellogg's researchers, marketing department, ad agency—everyone, he says, except Bill LaMothe. A decade earlier the company had been singularly unsuccessful in getting Americans to eat *muesli*, a mushy, oat-based porridge that Schroeder had successfully launched for Kellogg in Europe. The skepticism, says Schroeder, " made it fun to prove Müeslix would make it."

Though he had never even tasted American-style cold cereal until he reached his 20s, Schroeder's task was to change Kellogg's European cereal to fit American tastes. Working closely with Kellogg's researchers, he created a toasted-flake mixture that bore little resemblance to the oat porridge that Americans found so unpalatable. Müeslix was launched last November with a $33 million marketing budget, an industry record. TV commercials feature Swedish actor Max Von Sydow touting the stuff as a "centuries-old balance" of healthy ingredients, "what breakfast was meant to be."

Like the milk on Rice Krispies, the money Kellogg pours into marketing gives all these products their snap, crackle, and pop.

Müeslix's sales have been running close to $100 million on an annualized basis, twice what Kellogg had projected. John M. McMillin, a food industry analyst at Prudential-Bache Securities, says repeat purchases are 25% higher than average for a successful new cereal, even though Müeslix costs about $2.89 for a 14-ounce box, vs. $1.55 for 12 ounces of Corn Flakes. Kellogg anticipated a loss the first year, but the brand is already making money and making Schroeder the odds-on favorite to succeed LaMothe as chief executive when the chairman retires, probably in 1991.

Under LaMothe, Kellogg has been especially good at attacking market niches with technologically innovative products. The company introduced Crispix in 1983 to get its spoon into Ralston Purina's Chex family of cereals, which had about $125 million in annual sales and no significant competition. Crispix, which bonds two grains in one bite-size cereal—corn on one side, rice on the other—had sales last year of about $65 million. Kellogg has cracked Nabisco's Shredded Wheat niche with a pantryful of products. Among them: Raisin Squares and other fruit-filled shredded wheat cereals, and Nutri-Grain Biscuits, a shredded wheat without preservatives.

The commitment to creating new products has paid off abroad too, where the company competes with Quaker Oats, Swiss-based Nestlé, and many smaller concerns. Kellogg maintains its 50% share of cereal sales outside North America partly by developing new cereals for specific foreign markets. Just Right, a mineral-laden, multigrain flake now sold in the U.S., was created for health-conscious, athletic Australians, who are the world's third-biggest cereal eaters. (The Irish are first; the British, second; Americans, fourth.) For Japan, where many people still eat fish and rice for breakfast, Kellogg cooked up Genmai Flakes, made of whole-grain rice.

Like the milk on Rice Krispies, the money Kellogg pours into marketing gives all these products their snap, crackle, and pop. Annual spending has tripled since 1983 to an estimated $865 million, or 20% of sales. Most of that goes into brand-building advertising because Kellogg, the 800-pound gorilla in the cereal business, does not have to pay retailers so-called slotting allowances to get them to stock new products. These fees devour up to one-third of a new product's first-year marketing budget.

MUCH OF the ballyhoo goes into drawing adults to what only the kids used to munch. Kellogg began selling Frosted Flakes to grownups in 1984 with a campaign that claims, "Frosted Flakes have the taste adults have grown to love." Ad spending on the 36-year-old brand has doubled, and sales have roared ahead more than 40%.

Kellogg gets cash to outspend competitors by investing heavily in plant and equipment and financing its marketing and product development partly out of the resulting cost savings. Since 1983, Kellogg has quadrupled capital spending. This year's budget is close to $600 million. Manufacturing efficiencies have helped the company improve gross margins—total sales minus the cost of goods—to 49% from 41% five years ago. The food industry average is 35%.

Nothing better illustrates LaMothe's confidence in the future of the cereal industry than Kellogg's latest expansion plan: a new plant in Memphis that will increase domestic capacity as much as 35% and cost

INVESTOR'S SNAPSHOT

KELLOGG	
SALES (four quarters to 3/31)	**$3.9 BILLION**
CHANGE FROM YEAR EARLIER	UP 14%
NET PROFIT	**$412.5 MILLION**
CHANGE	UP 19%
RETURN ON COMMON STOCKHOLDERS' EQUITY	**33%**
FIVE-YEAR AVERAGE	36%
STOCK PRICE RANGE (last 12 months)	**$38.00-$67.75**
RECENT SHARE PRICE	**$55.25**
PRICE/EARNINGS MULTIPLE	**16**
TOTAL RETURN TO INVESTORS (12 months to 7/29)	**-11%**

REPORTER ASSOCIATE *H. John Steinbreder*

up to $1.2 billion. It will be the most expensive food-processing facility ever built. To put the cost in perspective, Honda spent $632 million to build its auto factory in Marysville, Ohio, and the most GE has ever spent on a plant is $1 billion.

THE PROTOTYPE for Memphis is a factory called Building 100, erected as part of a modernization of the Battle Creek operations where W. K. Kellogg began churning out Corn Flakes in 1906. Building 100 started up in February, and it is the most efficient cereal factory in the world. Kellogg, which stopped taking the public through its plants in 1986 after it found two European competitors on a Battle Creek tour, gave FORTUNE a look at Building 100 in June. It was the first time anyone not directly associated with Kellogg had been inside. Each of its four floors is larger than a football field, and when you stand on the 50-yard line peering in every direction, the degree of Kellogg's cost cutting becomes comprehensible. Not a human is seen. Seven days a week, 24 hours a day, computer-monitored machines perform every step of the cereal-making process, from mixing the grains to packing the boxes in cartons.

The technologically advanced equipment helps Kellogg improve product quality. For example, the new production line for shredded cereals minimizes handling of those fragile Nutri-Grain Biscuits. The computerized ovens cook huge sheets of the biscuit mixture evenly—no burnt edges—and other machines slice them neatly into bite-size pieces. Building 100's products are 20% to 25% more consistent in quality than cereal that comes out of Kellogg's older plants.

Loyal customers, plus new cereal eaters, boosted profits 24% last year, to $395.9 million, and helped the company rack up a stunning 33% return on shareholders' equity, vs. a median of 16% for the food companies in the FORTUNE 500. Industry analysts expect earnings to rise more than 20% this year. Though LaMothe is tenacious about expanding Kellogg's home market, international operations should provide most of the company's growth. In all but five nations in the world, breakfasters consume less than two pounds of ready-to-eat cereal a year, vs. an average of 9.6 pounds in the U.S. Kellogg, which sells in 130 countries, thinks it can raise international volume 7% to 10% a year, compared with 3% to 6% in the U.S. Not bad for a company past its prime. ■

COMPANIES TO WATCH

KINETIC CONCEPTS INC.

STEVEN PUMPHREY

Kinetic's bed can cushion a patient's pain.

■ Many hospital patients are subject to complications such as bedsores and pneumonia that can cause discomfort, even death. Kinetic Concepts claims that the specialized beds it rents to hospitals help reduce these problems and can speed a patient's release. One electronically controlled model gently inflates and deflates air cushions along its length, an undulation that reduces pressure on any one part of the body and allows increased blood flow to the skin. The company says this can prevent bedsores and alleviate the pain experienced by burn victims and others who must lie on top of their wounds. Another of Kinetic's beds (above), designed for patients who must remain immobile, rocks them from side to side to keep the body fluids moving. That can help avert pneumonia. Analyst Joy Thompson of the Atlanta brokerage firm Marshall & Co. believes that the U.S. market for such superspecialized beds—which rent for up to $150 a day each—could grow from $350 million annually to $1 billion in five years. She expects Kinetic to nearly double its profits in 1988, to $29 million on sales of $167 million. Its shares trade over the counter.

NU-WEST INDUSTRIES INC.

■ Economists think 1989 may be the year that fertilizer ends up smelling like roses, as farmers plant more acreage to compensate for bad harvests. The outlook is so promising that Nu-West, a Denver producer, is planning to go public in October. CEO Cleve McCarty, 63, founded the company just last year, buying a shut-down Idaho plant that produced high-phosphorous fertilizer used on the wheat and corn crops. He recalled laid-off workers, renovated the plant, and then added speciality fertilizers for fruits and vegetables. In May the company bought a second factory and began shipping to India and Spain. Says McCarty: "It is planting time somewhere in the world all the time." He expects earnings to rise over 300% this year, to $30 million on sales of $200 million.

SEA CONTAINERS LTD.

■ Expanding world trade has brought new buoyancy to this Bermuda-based lessor of seagoing cargo containers. The outfit, which also leases ships and runs ferries, sat dead in the water in 1986, stalled by a sudden oversupply of containers. The company survived by tightening operations and dropping unprofitable ferry routes. Now demand for containers far outstrips supply, and profits topped $43 million last year. Security analyst Michael Carstens of Tucker Anthony in New York believes the stock's price, recently $25 a share on the New York exchange, could almost double within a year.

IDB COMMUNICATIONS GROUP INC.

■ This uncommon carrier, though just a pipsqueak compared with AT&T, has grown 90% since 1986. Security analysts say IDB's net income could rise 45% this year, to $2.6 million on sales of over $20 million. Using a network of satellite earth stations and transponders, IDB transmits television, radio, or data signals for the TV networks' news divisions and other customers. The company started out in 1983, sending live sports coverage back to teams' hometown radio stations. IDB now transmits almost all the major sports leagues' away games. The company, whose shares trade over the counter, routinely delivers such TV programming as *Wheel of Fortune*, and U.S. news networks used its dishes to provide live coverage of the recent Moscow summit. **– Sarah Smith**